

Message Text

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AMEMBASSY BERLIN

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AMEMBASSY BUDAPEST

AMEMBASSY HELSINKI

AMEMBASSY MOSCOW

AMEMBASSY PRAGUE

AMEMBASSY SOFIA

AMEMBASSY WARSAW

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USMISSION GENEVA

C O N F I D E N T I A L USNATO 0607

E.O.11652: GDS

TAGS: ECON COMECON

SUBJECT: NAC CONSIDERATION OF ECONADS REPORT ON RECENT ECONOMIC
DEVELOPMENTS IN EE AND INTRA COMECON DEVELOPMENTS

REFS (NOTAL): (A) USNATO 316

(B) STATE 24471

(C) MOSCOW 857

(D) C-M (76)1

SUMMARY: AT FEB 4 MEETING, NAC APPROVED ECONADS
REPORT (REF D), DECIDED TO REVIEW PERIODICALLY INTRA COMECON
RELATIONS AND INSTRUCTED CHAIRMEN OF POLADS AND ECONADS TO
EXPLORE WAYS IN WHICH THE TWO COMMITTEES MIGHT WORK
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TOGETHER MORE CLOSELY IN PREPARING FURTHER REPORTS.
END SUMMARY.

1. AFTER ACTING SYG PANSAS INTRODUCTION OF ECONOMIC COMMITTEES

PAPER, (REF D), DANISH PERMREP (SVART), WHO HAD PREVIOUSLY SERVED IN MOSCOW, COMMENDED THE REPORT, ESPECIALLY ITS EFFORTS TO ADDRESS THE PRICE MECHANISM AND USE OF THE TRANSFERABLE RUBLE IN THE CEMA AREA. HE RECOUNTED ONCE HAVING DESCRIBED THAT SYSTEM AS "IMPENETRABLE" TO A HIGH OFFICIAL FROM A CEMA MEMBER COUNTRY. THE OFFICIALS RESPONSE- OUT OF HEARING OF OTHERS- WAS THAT IT WAS "CHAOS." SVART EXPRESSED THE HOPE THAT THE ANALYTIC EFFORT WOULD CONTINUE. HE WAS STRUCK, HOWEVER, THAT THE POLITICAL CONTRIBUTION TO THE ECONADS REPORT DID NOT GO VERY DEEP AND URGED THAT THE EXERCISE BE REPEATED IN THE FUTURE JOINT WORKING GROUP REPRESENTING POLAD AND ECONADS. HE RECOGNIZED THAT THERE WAS A "GREY AREA" WHERE IT IS VERY DIFFICULT TO DISTINGUISH BETWEEN WHAT IS ECONOMIC AND WHAT IS POLITICAL.

2. THE UK PERMREP (KILLICK) WHO HAD ALSO SERVED IN MOSCOW, AGREED WITH THE DANISH VIEWS, BOTH AS TO THE NEED TO CONTINUE TO REVIEW THE TOPIC AND THE DESIRABILITY OF A COOPERATIVE POLAD/ECONAD PRODUCT. TO ADD TO THE DANES ANECDOTE, KILLICK REPORTED THAT THE PHYSICAL SECURITY OF THE CEMA HEADQUARTERS BUILDING WAS MORE STRICT THAN THAT OF NATO HEADQUARTERS. THE UK RECOGNIZED THE DANGER TO THE INTERESTS OF THE ALLIANCE POSED BY GREATER ECONOMIC INTEGRATION WITHIN CEMA UNDER SOVIET AEGIS. NEVERTHELESS, IT WAS ALSO IMPORTANT NOT TO OVERRATE THAT DANGER. SEVERAL EE COUNTRIES, MOST SIGNIFICANTLY ROMANIA, WERE RESISTING INTEGRATION AND IT WAS USEFUL TO REMEMBER THAT THE CEMA STATUTE IS AN INTER-GOVERNMENTAL AGREEMENT AND THAT EACH OF THE MEMBERS HAS A VETO POWER. EVEN THE CEMA JOINT PROJECTS ARE NOT BINDING ON ALL MEMBERS, BUT ONLY ON THOSE WHO CHOSE TO PARTICIPATE. WHILE THE SOVIETS WOULD LIKE TO SEE MORE SUPRANATIONALITY IN CEMA, AND WHILE THEIR INFLUENCE ON THE OTHER MEMBERS IS OBVIOUSLY STRONG, THE UK SEES LITTLE CHANCE OF AN AMENDMENT OF THE CEMA STATUTE TO ACHIEVE EVEN THE LIMITED SORT OF SUPRANATIONAL POWERS WHICH ONE FINDS IN THE COMMON MARKET.

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3. TURNING TO THE PAPERS DISCUSSION OF THE NEW SLIDING SCALE PRICING UTILIZED BY THE SOVIETS IN DEALINGS WITH THEIR CEMA PARTNERS, THE UK PERMREP SAID THE COMMENTS IN PARA 6 OF REF (D) BEAR FURTHER EXAMINATION. WHILE THE SOVIETS HAVE NOW TAKEN ADVANTAGE OF A RISE IN WORLD PRICES TO RAISE- EVEN ON A DELAYED BASIS- ENERGY AND MINERAL PRICES TO THEIR CEMA PARTNERS, MANY COMMODITIES ARE NOW EXPERIENCING PRICE DECLINES, AND IT WILL BE INTERESTING TO SEE WHETHER THE SOVIETS WILL BE AS PROMPT IN APPLYING THE AVERAGE ON THE DOWNTREND. LIKEWISE, THE EE COUNTRIES, WHICH HAVE HAD SOVIET AGREEMENT TO RAISE THEIR EXPORT PRICES FOR MANUFACTURED GOODS TO THE USSR WILL PROBABLY WISH TO RETAIN THIS ADVANTAGE EVEN IF THEIR IMPORT COSTS FROM THE SOVIETS SHOULD

GO DOWN. ON THIS POINT, THE DANISH PERMREP DREW ATTENTION TO THE UNFORTUNATE POSITION OF SOME CEMA ASSOCIATE COUNTRIES, SUCH AS FINLAND, WHOSE ECONOMICS WERE VERY SENSITIVE TO THE SOVIET PRICE INCREASES BUT WHO HAD NOT BEEN ABLE TO RAISE THEIR EXPORT PRICES IN THE SAME FASHION AS THE FULL MEMBERS OF CEMA.

4. BELGIAN CHARGE (BAL) ALSO SUPPORTED AMBASSADOR SVARTS CONCLUSIONS AND EXPRESSED GRATITUDE FOR THE WORK WHICH HAD GONE INTO THE REPORT. HE ASKED THAT A MENAS BE FOUND TO FACILITATE GREATER POLITICAL/ECONOMIC COOPERATION AMONG THE COMMITTEES, IF NECESSARY BY THE ESTABLISHMENT OF NEW PROCEDURES. HE RECALLED THAT, SITTING AS MEMBER OF THE SPECIAL POLITICAL COMMITTEE LAST SPRING DURING THE CONSIDRATION OF A SOMEWHAT SIMILAR REPORT (EG, 75 USNATO 3123), THAT GROUP COULD NOT UTILIZE FULLY WHAT IT HAD BEEN GIVEN BY THE ECONADS. TURNING TO PARA 15 OF THE PRESENT PAPER, HE POINTED OUT THAT BELGIUM SAW CONSIDERABLE IMPORTANCE IN DEVELOPMENT OF COMMERCIAL EXCHANGES WITH EE COUNTRIES AS A WAY OF MITIGATING SOVIET INFLUENCE.

5. ECHOING THE VIEWS OF PREVIOUS SPEAKERS ON THE DESIRABILITY TO KEEP CEMA DEVELOPMENTS UNDER REVIEW, THE GERMAN (BOSS) ALSO AGREED THAT PROCEDURAL CHANGES MIGHT BE DESIRABLE IN THE DEVELOPMENT OF THE NEXT REPORT. AS TO PARA 15, HE DREW ATTENTION TO THE IMPLICATIONS OF SOVIET AND EE BORROWINGS IN THE EURODOLLAR MARKET; SUCH CREDITS COULD WELL GIVE THE EE COUNTRIES MORE ROOM FOR MANEUVER.

5. GREEK PERMREP (THEODOROPoulos) CONGRATULATED ECONOMIC
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CHAIRMAN BILLY AND HIS STAFF FOR THE EXCELLENCE OF THEIR REPORT. HE RECALLED, HOWEVER, THAT AN EARLIER VERSION OF THE REPORT (AC/127-WP/447), CONTAINED IN PARA 15, REFERENCE TO AN UMBRELLA ACCORD BETWEEN THE EC AND CEMA. HE WONDERED WHY THIS HAD BEEN DELETED AND ASKED THAT NATO MEMBERS WHO ARE ALSO MEMBERS OF THE NINE KEEP THE ALLIANCE INFORMED OF DEVELOPMENTS IN THIS SPHERE.

6. US CHARGE SPOKE ALONG LINES REF B, PARA 3, AND SUMMARIZED EMBASSY MOSCOWS REPORT ON CEMA EXECUTIVE COMMITTEE SESSION (REF C). EDITED TEXT OF REPORT WAS CIRCULATED AS AUTHORIZED BY MOSCOW 972.

7. CONCLUDING THE DEBATE, PANSA SAID THE POLITICAL AND ECONOMIC COMMITTEES WOULD BE ENCOURAGED BY THE POSITIVE TONE OF THE COUNCIL DISCUSSION, AND WOULD KEEP THE CEMA ISSUE UNDER REVIEW. AS TO PROCEDURAL SUGGESTIONS TO ENCOURAGE CLOSER COOPERATION IN THE PREPARATION OF REPORTS WITH BOTH POLITICAL AND ECONOMIC ASPECTS, HE SAID THESE WOULD BE STUDIED WITHIN THE IS WITH A VIEW TO IMPLEMENTATION. (INDEED, ASYG JUNG MET WITH POLAD CHAIRMAN KILLHAM AND ECONAD CHAIRMAN BILLY ON THIS POINT

IMMEDIATELY AFTER THE NAC WAS ADJOURNED). STREATOR

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